

Economic summary

FIGURE 1. IKEM INDEX FOR THE PERIOD Q3 2016–Q3 2019 FOR DOMESTIC SALES AND EXPORTS. AN INDEX VALUE BELOW 100 INDICATES A SLOWDOWN (CONTRACTION) IN VOLUME.

Source: IKEM



Unchanged growth during Q3 – but wide variation across the sectors of the chemical industry

During Q3, export volumes remained unchanged for the quarter of Swedish industry accounted for by refinery, chemical, pharmaceuticals and plastics/rubber production. Behind this neutral trend, however, there are clear differences between the various subsectors. Chemicals, rubber and plastics are feeling the effects of the international slowdown much more than pharmaceuticals. One issue that is also worrying the companies is the increase in crime and what this means for Sweden's reputation as a country and how it affects the ability to recruit top talent and attract investment to our country.

During the third quarter of 2019, the slowdown that has persisted since autumn 2018 continued for the quarter of Swedish industry accounted for by refinery, chemical, pharmaceuticals and plastics/rubber production. Export volumes remained more or less unchanged for the highly export-focused IKEM industries, measured at index 101 (figure 1). This is precisely in line with the forecast presented in IKEM's economic summary for Q2. On the significantly smaller domestic market, sales volumes were also unchanged during the quarter (index 100).

Overall, there have been no dramatic developments in the IKEM figures. These are largely in line with both internal forecasts and the external indicators that have been pointing towards more cautious growth for a relatively long time now. There are clear differences underlying the neutral trend for the IKEM industries, however. Principally, chemicals, petroleum and rubber/plastics have seen weaker development than pharmaceuticals. This is particularly true of chemicals and rubber/plastics, which have a very close relationship with the external economy and so feel the effects of the global slowdown more strongly.

In the economic survey that forms the basis for the economic summary, we also ask the companies how they see the future. For the entire IKEM collective, the export volume forecast for the next six months remains unchanged, at index 100. There are also clear variations across the different industries in this overall figure.

GERMANY DECLINING FOR CHEMICALS EXPORTS

The growth in the German economy is increasingly weak. The country's GDP is expected to grow by around 0.5% in 2019, heavily influenced by the stuttering trend in the German automotive industry. The IMF, among others, expects German growth in 2020 to be just over 1%. This trend obviously affects the EU, as Germany is the largest economy in the trade area. For those hard-core members of the EU which are part of the eurozone, the expected growth rate for 2020 is only just above that of Germany.

It is impossible for the export-oriented Swedish industry to ignore the negative ripples coming from the increasingly weak German economy. The conditions for growth in Swedish exports of chemicals, plastics and rubber are therefore not looking

too bright for the coming year. Germany is the single largest importer of Swedish chemical products. The value of exports remained unchanged during the first two months of Q3, which, given the weak Swedish krona, indicates a clear fall in volume (source: Statistics Sweden). There was also a weak or negative German export trend for rubber/plastics and refinery during July–August. Germany is also a key market for these industries, albeit not the single most important (fourth-largest for plastics/rubber and fifth-largest for refinery).

PHARMACEUTICALS EXPORTS REAP SUCCESS

If progress is relatively slow for chemicals, rubber/plastics and refinery, then the same cannot be said for the pharmaceuticals industry. This is particularly true if we analyse the export value statistics (Statistics Sweden). It is then clear, among other things, that pharmaceuticals exports to Germany have increased significantly, by 50% in July–August alone. Overall, the growth in the export value of pharmaceuticals is strong, particularly in light of the slowdown in other goods exports. During the first eight months of the year, the value of Swedish pharmaceuticals exports increased by 33%. In just a short space of time, China has emerged as the single most important export market, with a share of 17% of total Swedish pharmaceuticals exports. From January to August, exports to China increased by as much as 38%. There was also an increase in pharmaceuticals exports to the USA, which more than doubled during the period January to August, putting the USA just behind China in terms of importance as a market. Exports of pharmaceuticals to other countries also increased; by 80% to Belgium and by 55% to the UK. The success of this industry is also naturally reflected in the IKEM index of export volumes for Q1–Q3, although the volume figures are a lot more modest than the increase in terms of value.

INCREASED COSTS PUT PRESSURE ON MARGINS

The companies' costs for the purchase of raw materials/input goods continued to increase during the quarter, measured at an annual rate. However, the increase has come down to signif-

TABLE 1. IKEM INDEX BY LEVEL OF TURNOVER. COMPANIES WITH ANNUAL TURNOVER OF GREATER THAN AND LESS THAN SEK 1 BILLION RESPECTIVELY (2018).

Source: IKEM

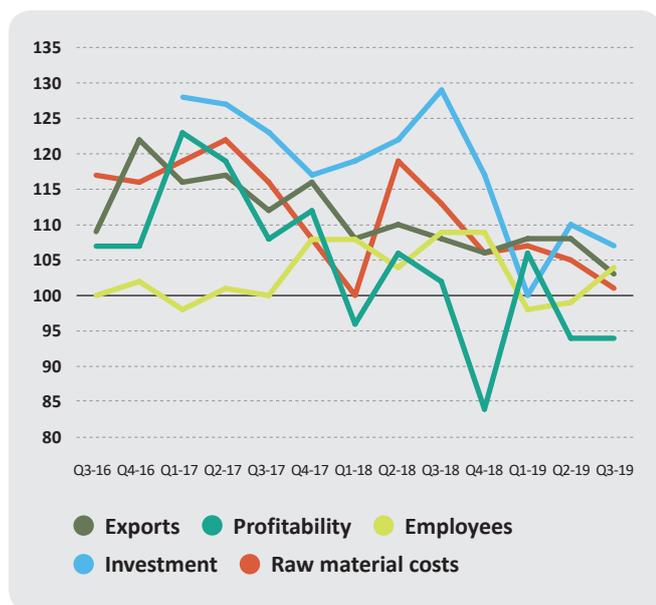
	Domestic sales (vol)	Exports (vol)	Forecast sales (vol)	Employees	Forecast employees, 6 months	Investment	Purchasing costs	Operating margin
IKEM < SEK 1 bn. t/o	106	106	101	98	99	101	110	105
IKEM > SEK 1 bn. t/o	99	100	100	105	100	103	107	92
Total	100	101	100	104	100	103	107	94

ificantly lower numbers (index 107 at annual rate). Generally speaking, the increased costs now being borne by the companies can be linked to the weak Swedish krona and the fact that the companies are tied in to futures contracts with relatively long terms to a certain extent. Raw material prices, quoted in USD, currently appear to be developing favourably from a producer perspective. If the SEK does not completely lose its foothold over the next six months, therefore, the concerns of the IKEM companies with regard to high purchasing costs should ease somewhat.

Although the cost of raw material purchases has increased slightly more slowly during the past year, profitability among the IKEM companies has continued to decline, measured at annual rate (index 94). This is a clear indication of a downturn in the economy, with reduced opportunities to pass cost increases on to the next stage.

FIGURE 2. IKEM INDEX OF THE NUMBER OF EMPLOYEES, RAW MATERIALS/INPUT COSTS, PROFITABILITY AND INVESTMENT. AN INDEX OF 100 CORRESPONDS TO AN UNCHANGED LEVEL, MEASURED AT ANNUAL RATE. INDEX VALUES ABOVE 100 INDICATE AN INCREASE.

Source: IKEM



NUMBER OF EMPLOYEES INCREASED – STILL ONLY FEW REDUNDANCY NOTICES

The slowdown in the economy has not yet resulted in the chemical industry as a whole employing fewer people. On the contrary, in fact, employment grew slightly during Q3 (index 104). Here again, though, there are major differences between industries and between individual companies. It is the pharmaceuticals-based sector in particular that is showing a net increase in employment, while the number of employees in other subsectors

has developed weakly or even negatively. There is no way to be certain, however, that the new jobs in the pharmaceuticals industry are actually completely new jobs. As reported in the media, individual pharmaceuticals companies have chosen to offer contracted consultants the opportunity to move into permanent employment. This may partly explain the increase in the number of employees in the industry.

The forecast from the entire IKEM collective in terms of the number of employees is neutral for the next six months. Few companies are intending to increase the number of their employees.

There is a partial link between the number of employees and the trend for the number of redundancy notices in the industry. So far in 2019 (January–October), the number of redundancy notices has hardly rocketed. There have certainly been far more in the first ten months of the year than for the whole of 2018 (1,197 vs. 317), but this is still below the average for the last 10 years of just under 2,100 people/year. The number of redundancy notices last year was also by far the lowest during the same time horizon. Over the next six months, however, there is likely to be a further slight increase in the number of redundancy notices. The industry still has a major need for skills, however, and a certain increase in the number of redundancy notices may therefore provide an opportunity for individual companies to obtain the staff they are looking for more easily.

HAVE THE IKEM COMPANIES BEEN AFFECTED BY THE INCREASE IN CRIME?

The trend for serious crime in the country in recent years cannot have gone unnoticed. The increasing use of bombs in urban environments, with the obvious risk of innocent victims, combined with shootings and outright executions on the open streets and on public premises have altered Sweden's image as a safe, law-abiding country. This serious crime does not appear to exist in a vacuum, but is increasingly spilling over into the rest of society. For businesses, particularly in vulnerable areas, threats and blackmail have become an everyday hazard and have forced both shops and restaurants to close down their operations. The question, then, is whether the IKEM companies, which are spread throughout Sweden, have also felt the effects and/or acted as a result of the trend of the past year.

To find out, we included some questions about serious crime in the survey.

Based on the answers, we can see that an absolute majority of the companies have not yet been adversely affected in terms of investment. Over 5% of the companies say, however, that they are concerned about what this trend is doing for the future willingness of companies to invest in Sweden. On the matter of whether preventive security measures have been taken for both facilities and staff, however, a good one-fifth of the companies respond that they are either planning or have already implemented measures and procedures for increased security. It should be

FIGURE 3. DO YOU FEEL THAT SERIOUS/ORGANISED CRIME HAS MADE “THE BRAND” SWEDEN SOUND WORSE IN YOUR CONTACT WITH CUSTOMERS AND COLLEAGUES IN OTHER COUNTRIES?

Source: IKEM

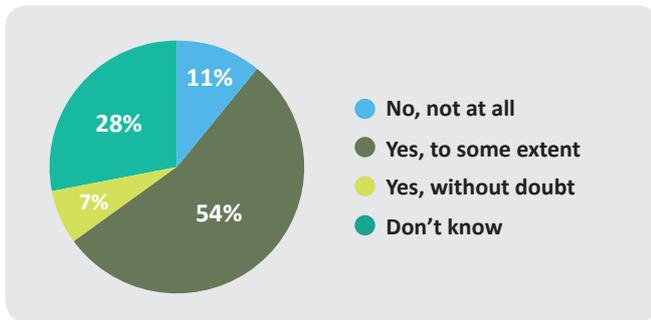
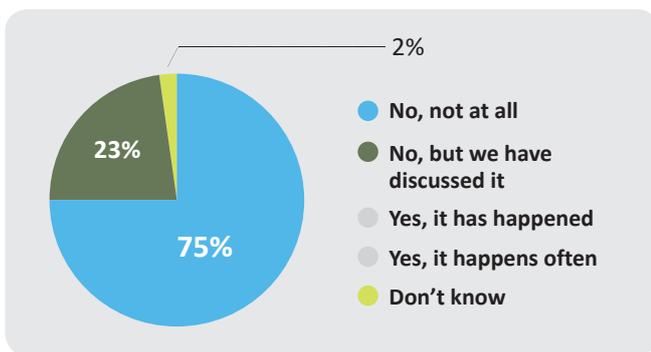


FIGURE 4. HAS YOUR COMPANY EXPERIENCED ANY DIFFICULTIES IN RECRUITING “TOP TALENT” FROM ABROAD AS A RESULT OF THE IMPACT OF SERIOUS/ORGANISED CRIME ON SWEDEN’S REPUTATION?

Source: IKEM



taken into account here that the nature of the activities of the IKEM companies, which involve chemicals and combustible and explosive products, has already previously motivated the companies to invest in a high level of security, with fenced-off industries and sophisticated alarm systems.

Although the IKEM companies are not directly affected by serious crime, it does, according to 14% of the companies surveyed, have an obvious negative impact on the local business community of which they themselves are part.

Another aspect of serious crime is the experience of staff on their journey to and from the production and research facilities at the country’s several thousand IKEM companies. Just over 10% of companies think that some of their staff feel less safe.

SWEDEN’S REPUTATION HAS TAKEN A HIT

Perhaps the most serious effect of this trend, judging from the IKEM survey, is what the large number of explosions and shootings has

done to Sweden’s image abroad. A good 60% of the companies think there has been a negative effect on the image of Sweden among customers and colleagues in other countries. Fortunately, there have been no signs of this as yet in the ability of the companies to attract foreign employees. A good 23% of the companies nevertheless report that the issue has been raised in recruitment situations. A couple of companies also think that they have had problems attracting talent here as a result of the situation in Sweden.

The conclusions that can be drawn from the answers to the questions about serious crime are that the IKEM companies have so far experienced very little direct effect on their activities or on the willingness to invest in Sweden. At the same time, over one-fifth of the companies report that they have taken preventive measures. In other words, they are taking this trend very seriously. Perhaps the most serious message from the IKEM companies is that six out of ten companies think Sweden’s reputation has deteriorated in recent years.

It is quite clear that if society is unable to stop this trend of increasing numbers of shootings and explosions, Sweden’s reputation as a safe and law-abiding society will be eroded. There is then a risk that talented foreign candidates will not simply discuss the matter in a job interview, but will instead reject the offer to come and contribute to Sweden’s development. An escalating spiral of violence in Sweden also risks scaring off the top new Swedish graduates, who would prefer to look for a job in a different, “safer” country.

There are many reasons why Sweden needs to take strong action on serious crime. The IKEM companies are by no means in the sights of those committing these violent acts, but the indirect negative effects on the industry’s ability to invest in staff and facilities in the long term are bad enough. The business community is in many ways a reflection of the society in which it operates. It is therefore vital for Sweden’s long-term competitiveness that an end is brought to the spiral of violence that has become a new everyday reality.

IKEM’s member companies operate across a broad range in the production of plastics, rubber, chemicals and pharmaceuticals. The total value added by the industry represents almost one-fifth of total industrial production in Sweden. The value of exports was SEK 307 billion in 2018. Unless otherwise indicated, all the responses reported from the economic survey are weighted according to the company’s turnover. The economic summary is reported every quarter.



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